

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

### OVERVIEW

Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), our ultimate Controlling Shareholders, will be entitled to exercise voting rights of approximately 84.75% of the issued share capital of the Company through companies held by Ms. Lu. Each of Mr. He and Ms. Lu and Midea Development (BVI) will remain as our Controlling Shareholders upon Listing.

On May 14, 2018, Ms. Lu and Mr. He entered into the Deed of Acting-in-concert, and the details of which are set out in “History, Reorganization and Group Structure — History and Development — Our History”.

### DELINEATION OF BUSINESS

#### Business of our Group

Our business operations consist of three principal business segments: (i) property development and sales; (ii) property management services; and (iii) investment and operation of commercial properties.

#### Other Businesses of our Ultimate Controlling Shareholders

In addition to the interests in our Group, our ultimate Controlling Shareholders engage in a wide range of businesses, among which, Mr. He is the actual controller of the following listed companies:

- (a) Midea Group Company, a company established under the laws of the PRC in April 2000 and the shares of which are listed on the Shenzhen Stock Exchange (SZ: 000333). Midea Group Company is principally engaged in the business of heating, ventilation and air conditioning systems, consumer appliances, robotic and automation systems and smart supply chain (logistics). Midea Group Company is held as to approximately 33.29% by Midea Holding Company, which is in turn held by Mr. He and Ms. Lu as to approximately 94.55% and 5.45%, respectively.
- (b) Wuxi Little Swan Co., Ltd. (“**Wuxi Little Swan**”), a company established under the laws of the PRC in November 1993 and the shares of which are listed on the Shenzhen Stock Exchange (SZ: 000418, 200418). Wuxi Little Swan is principally engaged in the research, development, manufacture and distribution of household electrical appliances and spare parts, as well as the provision of related technical services. Wuxi Little Swan is held, directly and indirectly, by Midea Group Company as to approximately 52.67%.
- (c) KUKA Aktiengesellschaft (“**KUKA AG**”), a company established under the laws of Germany in 1898 and the shares of which are listed on the Frankfurt Stock Exchange (XETRA: KU2). KUKA AG is a leading global supplier of intelligent automation solutions. KUKA AG is owned by Midea Group Company as to approximately 94.55%.

Our Controlling Shareholders are also engaged, directly or indirectly, in other businesses, including, among other things, the operations of hotel, golf course, production and sale of wine and recreation premises.

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Apart from the aforesaid businesses, Mr. He and Ms. Lu are also engaged in the following businesses which may to a certain extent overlap with our Group's businesses, while we believe that such businesses do not pose a competitive threat to our Group:

*(a) Property development and sales in Panjin, Liaoning Province*

Panjin Midea Property Co., Ltd. (“**Panjin Midea**”, 盤錦美的置業有限公司) is a company established in the PRC and is indirectly wholly-owned by Midea Holding Company. Panjin Midea is a project company designated for the residential property development and sales in Panjin, Liaoning Province, the PRC. The property development stage has been completed and a majority of the residential properties has been delivered to the property owners.

According to the PRC GAAP, the revenue of Panjin Midea for the years ended December 31, 2015, 2016 and 2017 was approximately RMB133.0 million, RMB781.0 million and RMB684.1 million, respectively, and the net profit/loss of Panjin Midea for the corresponding periods was approximately RMB(25.9 million) (at loss), RMB58.2 million and RMB46.6 million, respectively.

*Reasons for not including such business in our Group*

Notwithstanding that we conduct property development and sales in Liaoning Province, we consider that the residential property project previously developed by Panjin Midea does not fall within the targeted site selection regions of our Group. The economic development and population growth in Panjin is relatively slower than that of the national level in recent years. In line with our “deep-penetration” strategy, we only focus on the regions where we believe present high growth potential, thus we intend not to include Panjin Midea in our Group, and transferred all our equity interests in Panjin Midea to Foshan Midea (which is wholly-owned by Midea Holding Company) in December 2017. In addition, our Controlling Shareholders undertook to procure Panjin Midea not to develop other property development projects in addition to the existing ones, and therefore we expect that Panjin Midea will not develop other property development projects. We believe that Panjin Midea does not pose any competitive threat to our Group.

*(b) Hotel investment and operations in Foshan, Guangdong Province and Zhuzhou, Hunan Province*

Our Controlling Shareholders own and operate two high-end hotels in Shunde, Guangdong Province, the PRC, namely Foshan Shunde Junlanhui Boutique Hotel (佛山順德君蘭會精品酒店) and Shunde Midea Marriott Hotel (順德美的萬豪酒店), as well as one high-end hotel in Zhuzhou, Hunan, the PRC, namely Zhuzhou Midea Marriott Hotel (株洲美的萬豪酒店).

Foshan Shunde Meiyue Management Services Co., Ltd. (“**Shunde Meiyue**”, 佛山市順德區美悅管理服務有限公司) is a company established in the PRC and is indirectly wholly-owned by Midea Holding Company. Shunde Meiyue owns Foshan Shunde Junlanhui Boutique Hotel.

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Foshan Shunde Junmei Hotel Management Services Co., Ltd. (“**Shunde Junmei**”, 佛山市順德區君美酒店管理服務有限公司) is a company established in the PRC and is indirectly wholly-owned by Midea Holding Company. Shunde Junmei owns Shunde Midea Marriott Hotel.

Foshan Shunde Midea Hotel Management Co., Ltd. (“**Shunde Midea**” 佛山市順德區美的酒店管理有限公司) is a company established in the PRC and is indirectly wholly-owned by Midea Holding Company. Shunde Midea operates and manages Foshan Shunde Junlanhui Boutique Hotel and Shunde Midea Marriott Hotel.

Zhuzhou Junmei Hotel Services Co., Ltd. (“**Zhuzhou Junmei**”, 株洲君美酒店服務有限公司) is a company established in the PRC and is indirectly wholly-owned by Midea Holding Company. Zhuzhou Junmei owns Zhuzhou Midea Marriott Hotel.

Zhuzhou Junlan Hotel Management Co., Ltd. (“**Zhuzhou Junlan**”, 株洲市君蘭酒店管理有限公司) is a company established in the PRC and is indirectly wholly-owned by Midea Holding Company. Zhuzhou Junlan operates and manages Zhuzhou Midea Marriott Hotel.

According to the PRC GAAP, the aggregate revenue of Shunde Meiyue, Shunde Junmei, Shunde Midea, Zhuzhou Junmei and Zhuzhou Junlan for the years ended December 31, 2015, 2016 and 2017 was approximately RMB37.1 million, RMB148.4 million and RMB203.6 million, respectively, and the aggregate net loss of Shunde Meiyue, Shunde Junmei, Shunde Midea, Zhuzhou Junmei and Zhuzhou Junlan for the corresponding periods was approximately RMB17.9 million, RMB29.7 million and RMB53.3 million, respectively.

### *Reasons for not including such business in our Group*

Our focus is to develop high-quality residential properties primarily for affluent mid- to high-end customers with respect to property development and sales. In order to diversify our earnings, we also engage in the investment and operations of commercial properties such as shopping malls and hotels. Currently, we have five hotels in operation, of which one is an economy hotel located in Xuzhou, Jiangsu Province, the PRC and the other four are theme hotels of our cultural-tourism project located in Foshan, Guangdong Province, the PRC.

Our hotel in Xuzhou is an economy hotel targeting business travellers, which differentiates from the luxury hotels owned and operated by our Controlling Shareholders. Hotel investment and operation is not our main stream business. The revenue generated from the operation of our hotel in Xuzhou for the year ended December 31, 2017 was approximately RMB14.7 million, which was insignificant as compared to our revenue of approximately RMB17.7 billion for the corresponding period. In addition, we do not intend to operate luxury hotels which require extensive capital investment. In order to streamline our hotel operation, we transferred the entire equity interest in each of Shunde Meiyue, Shunde Junmei and Zhuzhou Junmei to Foshan Junlan (which is indirectly-wholly owned by Midea Holding Company) in April 2015, January 2017 and December 2017, respectively. For further details of disposal of Shunde Meiyue, Shunde Junmei and Zhuzhou Junmei, see “History, Reorganization and Group Structure — Major Acquisitions and Disposals” in this prospectus.

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We also have four hotels in operation in Midea Egret Lake Forest Resort located in Gaoming District, Foshan, Guangdong Province. Midea Egret Lake Forest Resort is our cultural-tourism project constructed in accordance with the National Standard Class 5A Tourist Attractions covering Egret Lake Ecological Protection Zone. These hotels are theme hotels specifically designed for tourists in the resort, and form part of the diversified types of operations in the resort. The target customers of these theme hotels can be distinguished from that of the hotels owned and operated by our Controlling Shareholders.

In light of the above, we are of the view that the hotel investment and operations business of our ultimate Controlling Shareholders has limited competition, either directly or indirectly, with our Group's business.

The aforesaid excluded companies (i.e. Panjin Midea, Shunde Meiyue, Shunde Junmei, Shunde Midea, Zhuzhou Junmei and Zhuzhou Junlan) had no material non-compliances during the Track Record Period and up to the Latest Practicable Date.

Save as disclosed above, as of the Latest Practicable Date and so far as our Directors are aware, (1) apart from the interest in our Group, none of our Controlling Shareholders was engaged or had any interest in any business which, directly or indirectly, competes or may compete with the business of our Group, which would require disclosure under Rule 8.10 of the Listing Rules; and (2) none of our Directors had any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of our Group, which would require disclosure under Rule 8.10 of the Listing Rules.

### MEASURES TO ADDRESS POTENTIAL COMPETITION AND CONFLICT OF INTERESTS

#### Non-Competition Undertakings

Mr. He and Ms. Lu, in the capacity of the actual controllers of Midea Property Management provided a non-competition undertaking in favor of Midea Property Management in 2016 for the purpose of the listing of the shares of Midea Property Management on the NEEQ. To further ensure that competition does not develop between us and other business activities and/or interests of our Controlling Shareholders, each of our Controlling Shareholders (collectively, the “**Covenantors**” and each, a “**Covenantor**”) entered into a deed of non-competition undertakings (the “**Deed of Non-competition**”) in favor of our Company on September 12, 2018, pursuant to which each of the Covenantors has, among other things, irrevocably and unconditionally undertaken, jointly and severally, with our Company that, save for the businesses carried on by them as already disclosed in this prospectus, at any time during the Relevant Period (as defined below), the Covenantor shall not, and shall procure that his/her/its close associates (other than members of our Group) will not, directly or indirectly, carry on, engage in, invest in, participate in, attempt to participate in, render any services to, provide any financial support to or otherwise be involved in or interested in, whether alone or jointly with another person and whether directly or indirectly or on behalf of or to assist or act in concert with any other person, any business or investment activities in the PRC and Hong Kong which is the same as, similar to or in competition with the business carried on or contemplated to be carried on by any member of our Group from time to time (the “**Restricted Business**”).

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The above restrictions do not prohibit any of the Covenantors and his/her/its close associates (excluding members of our Group) from:

- (a) holding any securities of any companies which conducts or is engaged in any Restricted Business through their interest in our Group from time to time;
- (b) through acquiring or holding any investment or interest in units or shares of any company, investment trust, joint venture, partnership or other entity in whatever form which engages in any Restricted Business where such investment or interest does not exceed 10% of the issued shares of such entity provided that (1) such investment or interest does not grant any of the Covenantors and their respective close associates any right to control the composition of the board of directors or managers of such entity, (2) none of the Covenantors or their respective close associates control the board of directors or managers of such entity, and (3) such investment or interest does not grant any of the Covenantors and their respective close associates any right to participate directly or indirectly in such entity; or
- (c) participating in any New Business Opportunities (as defined below) if our Group has declined the New Business Opportunities or no written notice has been received from our Group of our decision to pursue or decline the New Business Opportunity that we shall be deemed to have declined the New Business Opportunity as set out below.

Each of the Covenantors has also undertaken to refer, or to procure the referral of, any investment or commercial opportunities relating to any Restricted Business (“**New Business Opportunities**” and each, a “**New Business Opportunity**”) to us (for ourselves and as trustee for the benefit of each of our subsidiaries from time to time) in the following manner:

- As soon as he/she/it becoming aware of any New Business Opportunity, give written notice (the “**Offer Notice**”) to us identifying the target company (if relevant) and the nature of the New Opportunity, detailing all information available to him/her/it for us to consider whether to pursue such New Business Opportunity (including details of any investment or acquisition costs and the contact details of the third parties offering, proposing or presenting the New Business Opportunity to him/her/it).
- Our Company shall, as soon as practicable and in any case within 30 Business Days from the receipt of the Offer Notice (the “**Offer Notice Period**”) notify the relevant Covenantor in writing of its intention to pursue or decline the New Business Opportunity. During the Offer Notice Period, our Company may negotiate with the third party offering him/her/it, proposing or presenting the New Business Opportunity and the relevant Covenantor shall use his/her/its best endeavors to assist us in obtaining such New Business Opportunity on the same or more favorable terms.
- Our Company is required to seek approval from our independent non-executive Directors who do not have a material interest in the matter for consideration as to whether to pursue or decline the New Business Opportunity, and that the appointment of an independent financial advisor to advise on the terms of the transaction in the subject matter of such New Business Opportunity may be required.

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- The relevant Covenantor may, at his/her/its absolute discretion, consider extending the Offer Notice Period as appropriate.
- The relevant Covenantor shall be entitled to but shall not be obliged to carry on, engage, invest, participate or be interested (economically or otherwise) in the New Business Opportunity (whether individually or jointly with another person and whether directly or indirectly or on behalf of or to assist any other person) on the same, or less favorable, terms and conditions in all material respects as set out in the Offer Notice if:
  - (i) he/she/it has received a written notice from us declining the New Business Opportunity; or
  - (ii) he/she/it has not received any written notice from us of our intention to pursue or decline the New Business Opportunity within 30 Business Days from our receipt of the Offer Notice, or if he/she/it has extended the Offer Notice Period, within such other period as agreed by it, in which case our Company shall be deemed to have declined the New Business Opportunity.
- If there is a change in the nature or proposal of the New Business Opportunity pursued by the relevant Covenantor, he/she/it shall refer the New Business Opportunity as revised and shall provide to us details of all available information for us to consider whether to pursue the New Business Opportunity as revised.

When considering whether or not to pursue any New Business Opportunities, our independent non-executive Directors will form their views based on a range of factors, including but not limited to, the estimated profitability, investment value and permits and approval requirements. The Covenantors, for themselves and on behalf of their close associates (except any members of our Group), have also acknowledged that our Company may be required by the relevant laws, regulations and rules and regulatory bodies to disclose, from time to time, information on the New Business Opportunities, including but not limited to disclosure in announcements to the public or annual reports of our Company our decisions to pursue or decline the New Business Opportunities, and have agreed to disclose to the extent necessary to comply with any such requirements.

Under the Deed of Non-competition, each of the Covenantors has further irrevocably and unconditionally undertaken jointly and severally, with us the following:

- (i) the Covenantors shall provide, and shall procure their close associates (other than members of our Group) to provide, during the Relevant Period (as defined below), where necessary and at least on an annual basis, all information necessary for the review by our independent non-executive Directors, subject to any relevant laws, rules and regulations or any contractual obligations, to enable them to review the Covenantors' and their close associates' (other than members of our Group) compliance with the Deed of Non-competition, and to enable the independent non-executive Directors to enforce the Deed of Non-competition;
- (ii) without prejudicing the generality of paragraph (i) above, the Covenantors shall provide to us with an annual declaration for inclusion in our annual report, in respect of their compliance with the terms of the Deed of Non-competition;

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- (iii) the Covenantors have agreed and authorized us to disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the Deed of Non-competition, either through our annual reports or by way of announcements to the public; and
- (iv) each of the Covenantors agrees to indemnify us from and against any and all losses, damages, claims, liabilities, costs and expenses (including legal costs and expenses) where we may suffer or incur as a result of any failure to comply with the terms of the Deed of Non-competition by the Covenantors or any of their respective close associates.

Our Company will disclose the decisions with basis on matters reviewed by our independent non-executive Directors relating to the compliance with and enforcement of the Deed of Non-competition either in the annual report of our Company or by way of announcements to the public.

For the purposes of the above, the “Relevant Period” means the period commencing from the Listing Date and shall expire on the earlier of (i) the date when the Covenantors and, as the case may be, any of their close associates, cease to hold, or otherwise control or be interested in, beneficially in aggregate whether directly or indirectly, 30% or more (or such other percentage of shareholding as stipulated in the Listing Rules to constitute a controlling shareholder) of the issued share capital of our Company; or (ii) the date on which the Shares cease to be listed on the Stock Exchange (except for temporary suspension of trading of the Shares).

## **INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS**

Having considered the following factors, our Directors are satisfied that we are capable of carrying out our business independently of our Controlling Shareholders and their respective close associates after Listing.

### **Management Independence**

Our business is managed and conducted by our Board and senior management. Our Board comprises four executive Directors, two non-executive Directors and three independent non-executive Directors. None of our Directors is a Controlling Shareholder. For details of our Directors and our members of our senior management, see “Directors and Senior Management” in this prospectus.

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Immediately following completion of the Global Offering, the following Directors will hold directorships and/or senior management roles in our Controlling Shareholders and their respective close associates (the “**Common Management Members**”):

Name	Our Company		Our Controlling Shareholders and their respective close associates	
	Position	Roles and responsibilities	Position	Roles and responsibilities
Mr. Hao Hengle (郝恒樂)	Chairman, executive Director and president	Presiding over our Board and responsible for the overall business direction and day-to-day business and management of our Group	Director of Midea Ever and Midea Field	As confirmed by Mr. Hao, these companies are special purpose vehicles for investment holding purpose.
			Director of Foshan Midea, Foshan Junlan and Midea Development (HK)	As confirmed by Mr. Hao, these companies are special purpose vehicles for investment holding purpose.
Mr. He Jianfeng (何劍鋒)	Non-executive Director	Providing strategic advice and recommendations on the operations and management of our Group	Director of Ningbo Puluofei Investment Management Co., Ltd. (“ <b>Ningbo Puluofei</b> ”, 寧波普羅非投資管理有限公司), Foshan Midea Investment Management Co., Ltd. (“ <b>Foshan Midea Investment</b> ”, 佛山市美的投資管理有限公司), Midea Holding (International) Limited (“ <b>Midea Holding (International)</b> ”, 美的控股(國際)有限公司), Foshan Junyu Management Company Limited (佛山順德君域管理有限公司); President of Midea Holding Company	As confirmed by Mr. He Jianfeng, these companies are special purpose vehicles for investment holding purpose.
			Director of Midea Group Company	As confirmed by Mr. He Jianfeng, he participates in decision making and day-to-day management of this company.
Mr. Zhao Jun (趙軍)	Non-executive Director	Providing strategic advice and recommendations on the operations and management of our Group	Director of Midea Development (BVI) and Midea Field	As confirmed by Mr. Zhao, these companies are special purpose vehicles for investment holding purpose.
			Supervisor of Midea Group Company	As confirmed by Mr. Zhao, he is responsible for supervising the board of directors.
			Director and/or general manager of Foshan Junlan, Foshan Midea and Midea Development (HK), Ningbo Puluofei, Foshan Midea Investment, Midea Holding (International), Million King Holding (International) Limited (美景控股國際有限公司); Vice President and financial controller of Midea Holding Company	As confirmed by Mr. Zhao, these companies are special purpose vehicles for investment holding purpose.



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As confirmed by our Directors, save as disclosed above, there is no overlapping of directors and members of the senior management between our Group and the Controlling Shareholders or their close associates.

We believe our Board as a whole and members of the senior management are able to perform their roles in our Group independently and that our Group is capable of managing our business independently from the Controlling Shareholders and their close associates. We consider that the roles of the Common Management Members in the Controlling Shareholders and their respective close associates will not materially impact the Common Management Members' abilities to discharge their duties of skill, care and diligence to our Group for the following reasons:

- (a) as confirmed by Mr. Hao Hengle, Midea Ever, Midea Field, Foshan Midea, Foshan Junlan and Midea Development (HK), where Mr. Hao holds directorships, are merely investment holding companies and do not engage in other commercial activities. Mr. Hao has undertaken to devote most of his time and attention to the management of our Group. On this basis, Mr. Hao confirmed that his involvement in the aforementioned companies will not affect the discharge of his duties to our Group;
- (b) each of Mr. He Jianfeng and Mr. Zhao Jun, as our non-executive Directors, will not be involved in the day-to-day management of our Group. On this basis, Mr. He Jianfeng and Mr. Zhao Jun confirmed that their respective involvement in the aforementioned companies will not affect the discharge of their respective duties to our Group;
- (c) each Director is aware of his/her fiduciary duties as a director which require, among other things, that he/she acts for the benefit and in the interest of our Company and must not allow any conflict between his/her duties as a director and his/her personal interests;
- (d) in the event that there is a potential conflicts of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting on any Board resolutions in respect of such transaction and shall not be counted in the quorum present at the relevant Board meeting;
- (e) our daily management and operations are carried out by an experienced management team, which has substantial experience in the industry in which our Group is engaged, and will therefore be able to make business decisions that are in the best interests of our Group. We have the capabilities and personnel to perform all essential administrative functions, including finance, accounting, human resources, business management, construction management/quality control and design on a standalone basis;
- (f) we have three independent non-executive Directors, who have been appointed to bring independent judgment to the decision-making process of our Board to ensure that the decisions of our Board are made only after due consideration of independent and impartial opinions; and
- (g) we have adopted corporate governance measures to manage conflicts of interest, if any, between our Group and our Controlling Shareholders and their respective close associates which would support our independent management. See “— Corporate Governance Measures” below for further information.

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### **Operational Independence**

We have full rights to make all decisions on, and to carry out, our own business operation independently of our Controlling Shareholders and their respective close associates and will continue to do so after Listing.

### ***Intellectual property rights and licenses required for operation***

We have entered into the Trademark Licensing Agreement with Midea Group Company, pursuant to which Midea Group Company agreed to grant the right to use certain trademarks to Midea Construction (HK) on a long-term basis, the details of which are set out in “Continuing Connected Transactions — (C) Wholly-exempt Continuing Connected Transactions — 1. Trademark Licensing Agreement with Midea Group Company” in this prospectus. Our Directors consider that the Trademark Licensing Agreement is beneficial to our Group as a whole and we are not reliant on our Controlling Shareholders in this regard. In addition, we hold and enjoy the benefit of all relevant licenses and permits material to the operation of our business.

### ***Access to customers***

Given our business nature, we consider that we have a large and diversified base of customers and we do not rely on our Controlling Shareholders and/or their respective close associates in accessing to our customers.

### ***Operational facilities***

Save as disclosed in “Continuing Connected Transactions — (C) Wholly-exempt Continuing Connected Transactions — 2. Yingfeng Property Leases with Yinghai Investment” and “Continuing Connected Transactions — (C) Wholly-exempt Continuing Connected Transactions — 3. Sharing of Office Space with Midea Holding (International)” in this prospectus, the properties and facilities material to our business operations are independent from our Controlling Shareholders and their respective associates.

### ***Administrative Capabilities***

Save as disclosed in “Continuing Connected Transactions — (C) Wholly-exempt Continuing Connected Transactions — 4. Provision of the Information Technology Support Services by Midea Group” in this prospectus, all essential administrative functions of our Group will be carried out by our Group independently of our Controlling Shareholders and their respective associates. In particular, our Group will have its own staff to perform all essential administrative functions, such as finance and reporting, administration and operations, information technology, compliance and human resources functions, separate and independent from our Controlling Shareholders and their respective associates, and will be capable of generating its own business channels.

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### *Employees*

We confirm that, as of the Latest Practicable Date, our full-time employees were primarily recruited independently and primarily through recruitment websites, sub-contracting with independent contractors, on-campus recruitment programs, advertisements in newspapers, recruiting firms and internal referrals.

### *Connected transactions with our Controlling Shareholders*

Save for the continuing connected transactions set out in “Continuing Connected Transactions” in this prospectus, our Directors do not expect that there will be any other transactions between our Group and our Controlling Shareholders or their respective associates upon or shortly after Listing. In addition, save as disclosed in “Continuing Connected Transactions — (D) Partially-exempt Continuing Connected Transactions — 1. Provision of the Household Technology Products by Midea Group” in this prospectus, none of our Controlling Shareholders and Directors or their respective close associates has been our major supplier or customer during the Track Record Period which provides any critical services or materials for our business operation. Thus, the existence of the above continuing connected transactions will not affect our operational independence from our Controlling Shareholders after Listing.

Based on the above, our Directors believe that we are able to operate independently from our Controlling Shareholders and their respective close associates.

### **Financial Independence**

Our Group has an independent financial system and makes financial decisions according to our Group’s own business needs. We have our independent internal control and accounting systems and also have an independent financial department with a team of independent financial staff responsible for discharging the treasury function.

Certain close associates of Mr. He have provided guarantees in favor of our Group in respect of certain financing arrangements entered into by our Group (the “**Connected Guarantees**”). Set forth below are the details of the financial arrangements with Connected Guarantees which were subsisting as of the Latest Practicable Date and are expected to continue after Listing:

#### *(a) Corporate bonds*

No.	Member of our Group (as bond issuer)	Name of bond	Issue Date	Principal amount	Term of bond	Interest rate (per annum)	Balance as of March 31, 2018	Guarantee
1.	Midea Real Estate Group Company . . . . .	2016 Midea Debentures	January 5, 2016	RMB0.5 billion	3 years	4.28%	RMB0.5 billion	Share charge given by Midea Holding Company
2.	Midea Real Estate Group Company . . . . .	2016 Midea Debentures 01	March 30, 2016	RMB1 billion	3 years	4.80%	RMB1 billion	Share charge given by Midea Holding Company
3.	Midea Real Estate Group Company . . . . .	2016 Midea Debentures 02	June 1, 2016	RMB2 billion	3 years	4.80%	RMB2 billion	Share charge given by Midea Holding Company
<b>Sub-total</b>							<b><u>RMB3.5 billion</u></b>	

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### (b) *Other financing arrangements*

No.	Name of member of our Group (as borrower)	Type of financing	Effective Date	Maturity Date	Annual Interest rate	Loan balance as of March 31, 2018	Guarantee
1.	Midea Real Estate Group Company . . . . .	Debt investment scheme	October 21, 2016 and October 26, 2016	October 21, 2019 and October 26, 2019	5.25%	RMB1.5 billion	Guaranteed by Midea Holding Company
2.	Midea Real Estate Group Company . . . . .	Debt investment scheme	October 31, 2017	October 31, 2022	6.10%	RMB980 million	Guaranteed by Midea Holding Company
3.	Midea Real Estate Group Company . . . . .	Debt investment scheme	November 3, 2017	November 3, 2022	6.10%	RMB310 million	Guaranteed by Midea Holding Company
4.	Midea Real Estate Group Company . . . . .	Debt investment scheme	November 30, 2017	November 30, 2022	6.10%	RMB1.01 billion	Guaranteed by Midea Holding Company
<b>Sub-total</b>						<u>RMB3.8 billion</u>	
<b>Total</b>						<u>RMB7.3 billion</u>	

We consider that an early discharge of the Connected Guarantees in respect of the aforesaid corporate bonds and other financial arrangements is not in the best interests of our Group and our Shareholders as a whole to refinance the financing arrangements due to the following:

- In the event that we are required to refinance all or part of the aforesaid financial arrangements before their maturity dates, it would incur unnecessary additional costs, expenses and time in doing so. In addition, the terms of any new financing may not be as favorable as those with Connected Guarantees, especially when the interest rate is on an upward trend.
- Connected Guarantees of the aforesaid corporate bonds may not be able to release without prior approval of such bondholders and investors. For instance, any change of guarantor under 2016 Midea debentures requires the approval of a majority of the holders of the outstanding bonds at the bondholders' meeting. As such, we believe that the early release of the Connected Guarantees under these corporate bonds may be highly difficult and commercially not feasible.

Having regard to the following circumstances and measures taken by the Group, we believe that the continuation of the above financing arrangements after Listing will not significantly impact our ability to operate independently from our Controlling Shareholders and their respective close associates from the financial perspective:

- Financing arrangements with Connected Guarantees that are expected to continue after Listing do not account for a significant portion of our total indebtedness. As of March 31, 2018, the amount outstanding from the financing arrangements with Connected Guarantees that are expected to continue after Listing amounted to RMB7.3 billion which accounts for approximately 16.8% of the total indebtedness of the Group.
- We have a strong track record of obtaining financing from independent third parties without financial assistance from our Controlling Shareholders and their respective close associates. For instance, we have obtained loans and trust financing in an aggregate principal amount of

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approximately RMB9.0 billion without any security or guarantee from any of the Controlling Shareholders or their close associate from independent financial institutions from January 2018 to March 2018.

- We have also secured additional financing channels without any security or guarantee by any of the Controlling Shareholders or their close associates:
  - (a) *Financing from financial institutions:* As of March 31, 2018, we have unutilized credit facilities from independent financial institutions in an aggregate amount of RMB18.4 billion.
  - (b) *Bond:* We have obtained 2018 Corporate Bonds Approval to issue an aggregate sum of RMB7.5 billion corporate bond, and the first tranche of which (RMB1.4 billion) has been issued in May 2018. In this regard, we have also obtained a letter of intent from a bond underwriter of the first tranche corporate bond which indicates that, as an underwriter of the proposed issue of corporate bonds in the amount of RMB7.5 billion by us, it is confident to facilitate us in such issuance without any security or guarantee from entities outside of our Group.
  - (c) *Asset-backed securities:* We have obtained regulatory approval to issue a sum of RMB1.79 billion asset-backed securities collateralized by receivables due from property purchasers in April 2018. Such asset-backed securities have been issued in July 2018, and the net proceeds of which were applied for repayment of bank loans due in 2018.
- We are in a strong cash position with cash and cash equivalents of RMB15.7 billion and we also have investment in wealth management products of approximately RMB2.1 billion, having initial terms ranging from one to 365 days as of March 31, 2018.

In light of the above, we believe that we are able to obtain new financing and extend existing financing from independent financial institutions on normal commercial terms without any security or guarantees from our Controlling Shareholders and/or their respective close associates following the Listing.

As of March 31, 2018, (i) non-trade balances amounting to RMB2.9 billion and RMB867 million were due to and from our Controlling Shareholders and their respective close associates, respectively; and (ii) loans amounting to RMB3.0 billion due to our Controlling Shareholders and their respective close associates. We expect that all the aforesaid non-trade balances and loans due to or from our Controlling Shareholders and their respective close associates will be settled prior to Listing using funds generated from operations. For details, see note 37 to the Accountant's Report in Appendix I to this prospectus.

As confirmed by our Directors, save as disclosed in this prospectus, as of the Listing Date, there will be no other loans or non-trade balances due to or from our Controlling Shareholders or their respective close associates which had not been fully settled nor were there any financial assistance, security, pledges and guarantees provided by any of our Controlling Shareholders or their respective close associates on the Group's financing which had not been fully released or discharged.

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Based on the above, our Directors are satisfied that we are able to maintain financial independence from the Controlling Shareholders and their respective close associates.

### CORPORATE GOVERNANCE MEASURES

In addition to the measures to address potential competition and conflict of interests as stated above, our Directors believe that there are also adequate corporate governance measures in place to manage the potential conflict of interests between our Controlling Shareholders and our Group and to safeguard the interests of our Shareholders taken as a whole for the following reasons:

- our independent non-executive Directors will review, on an annual basis, the compliance with non-competition undertakings by our Controlling Shareholders under the Deed of Non-Competition;
- our Controlling Shareholders shall provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-Competition;
- our Company will disclose decisions and related basis on matters reviewed by our independent non-executive Directors (including all rejections by our Company of new opportunities in the Restricted Businesses that have been referred from our Controlling Shareholders) relating to compliance and enforcement of the non-competition undertakings by our Controlling Shareholders under the Deed of Non-Competition in the annual reports of our Company or by way of public announcement; and
- our Controlling Shareholders will make annual statements on compliance with the Deed of Non-Competition in our annual reports, which is consistent with the principle of making disclosure in the corporate governance report of the annual report.